

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

3 MARCH 2008

REPORT OF CHIEF FINANCE OFFICER

Report prepared by: Paul Riley,
Chief Accountant

1. RELATED PARTY TRANSACTIONS

1.1 Issue for Decision

1.1.1 To agree the proposed changes to the procedure for the collation of the related party transaction documents returned by Members as part of the annual governance process.

1.2 Recommendation of Chief Finance Officer

1.2.1 That Audit Committee endorse the proposal that the related party information from Members be requested earlier and that the option be given to Members of an interview to discuss the information required.

1.3 Reasons for Recommendation

1.3.1 At the meeting of the Audit Committee on 17th September 2007 Members considered the Annual Governance Statement for 2006/07 as presented by the Council's External Auditor. In the Governance Statement the Auditors reported on a small number of cases where the Council had not received related party transaction returns from Members.

1.3.2 By the time of the meeting Officers had obtained assurances that were acceptable to the External Auditor in most cases. However the Committee felt that Officers should review the process of completion and collation of the returns to ensure that every opportunity is taken to avoid a repeat of the situation during the 2007/08 audit.

Related Party Transaction

1.3.3 The related party disclosure in the statement of accounts is a requirement of the Code of Practice on Local Authority Accounting in the United Kingdom (SORP), which is published by CIPFA. The

guidance given in the SORP links the disclosure to the requirements of FRS 8 – Related Party Disclosures, which is a financial reporting standard that all organisations are required to follow.

1.3.4 The largest related party transactions that the Council discloses in its statement of accounts are with central government through government grants and with Kent County Council through the precept. The table below is a copy of the declaration in the 2006/07 statement of accounts.

	£000
Receipts	
Central Government - Revenue Grants	(36,704)
Payments	
Kent County Council - Precept	52,142
Kent Police Authority - Precept	6,605
Kent & Medway Towns Fire Authority - Precept	3,371
Kent County Council - Pension Fund	3,089

1.3.5 FRS 8 suggests that a reader of financial statements should, in the absence of contrary information, be able to assume that the reporting entity [*the Council*] has power over its resources and transactions and acts independently of the interests of its owners, managers and others. In the Council's case this refers mainly to: Members; Officers; and other Government organisations. The table in paragraph 1.3.4, being the Council's declaration, implies that it contains all contrary information the reader requires.

1.3.6 To produce the table officers must consider all the relationships that exist that could give rise to related party transactions and then consider all transactions that have occurred with those related parties. To complete this task it is essential to know if any Members or Officers have direct or indirect control over a third party. The Council gains this knowledge by requesting that Members and Officers complete a form declaring any relationships that may be considered to include a controlling influence.

1.3.7 The distribution of the information request and the collation of the returned forms is completed by the Head of Corporate Law & Legal Services annually. The task is usually completed following the year end to ensure any changes in circumstances during the year can be considered by Members. This does mean that any Members who are

due but fail to be re-elected or chose not to stand may not complete the form.

1.3.8 In the guidance to the SORP, CIPFA suggest that, reliance on the statutory register of interest may be appropriate for the identification of Members relationships with third parties. The major concern they raise with the register of interests is that it must be completely up to date. They suggest that as an alternative a questionnaire or an interview might be a more practical approach.

1.3.9 As explained in paragraph 1.3.7 the Council currently uses the specific questionnaire as suggested by CIPFA however in 2006/07 this did not achieve a 100% response rate. There are two reasons for this, firstly some members were not re-elected and obtaining a completed form proved difficult, secondly some Members relationships are complex and the completion of the form becomes burdensome if all relationships are to be explained.

1.3.10 In relation to the first point it would be possible to distribute the questionnaire earlier. Although this may cause some doubt relating to its accuracy if completed before 31st March each year, it will be materially correct and that is acceptable according to the requirements of the SORP.

1.3.11 In relation to the second point it would be possible to offer an interview as an alternate option to Members who find the declaration is complex or who are unsure regarding the relevance of some relationships.

1.4 Alternative Action and why not Recommended

1.4.1 The Council could continue to collect the related party information from Members in exactly the same way as previous years. This would increase the risk that any missing data will cause the External Auditor to highlight the ongoing issue in future annual governance letters, thus damaging the Council's reputation.

1.4.2 The Council could rely on data collected from the register of interests. This would increase the risk of the External Auditor declaring the information inaccurate due to its age and again highlight the ongoing issue in future annual governance letters, thus damaging the Council's reputation.

1.5 Impact on Corporate Objectives

1.5.1 Good corporate governance is essential to ensure that the Council's corporate objectives are achieved in a manner that gives confidence to both Members and the public.

1.6 Risk Management

1.6.1 The major risk is to the Council's reputation. If the External Auditor considers that the Council has not given suitable consideration to an issue raised in the annual governance letter it is possible that the issue will be at least repeated in future letters.

1.6.2 The actions proposed should ensure that the Council has not only acted on the concerns of the external Auditor but has done so by considering advice and best practice

1.7 Other Implications

1.7.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Social Inclusion
- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement

1.8 Background Documents

1.8.1 The Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice. CIPFA (2007)

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes No

If yes, when did it appear in the Forward Plan? _____

Is this an Urgent Key Decision? Yes No

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]